



Institutional Holding in Depositary Receipts

September 2011

Introduction

Depository Receipts (DRs) are a convenient way for investors to gain access to international equities. Since their inception in 1929, DRs have grown in popularity as vehicles for cross-border listings. As of December 2010, DR liquidity has increased to 147 billion shares (CAGR of 19% since 2006) representing close to 3,000 issuers. A large part of that increase was driven by one of the largest segments of investors in DRs – the institutional investor – holding approximately 57% of DRs outstanding for non-U.S. companies with a DR listing. The ensuing study analyzes trends in the behavior of institutional investors and attempts to understand their DR holding patterns.

Data and Methodology

In order to ensure that the study is representative of the DR universe, we derived a sample of 92 issuers that contributed at least 80% of the total DR trading volume for each year during the two-year period (2008-2010) covered in the study. Further, to ensure that the sample was not biased in favor of a particular exchange, we also confirmed that the companies in the sample represented approximately 80% of the DR liquidity of each respective exchange. Additionally, the total DRs outstanding from the sample companies represented 70% of all the DRs outstanding for all U.S.-listed DR programs.

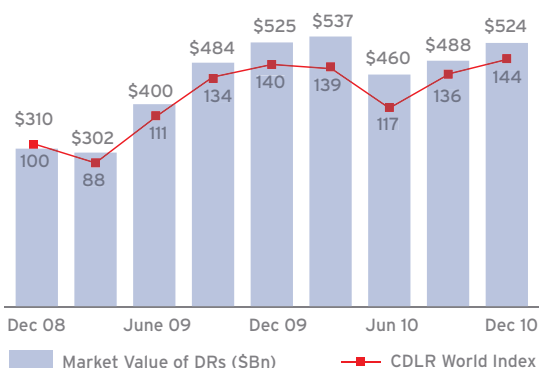
Over 3,000 institutional investors were identified as holding a DR position in the sample companies. This study analyzed the DR holding positions and total equity assets of these institutional investors from December 2008 to December 2010. The DR holding positions were sourced from Form 13F filings, which institutional investors are required to file with the Securities and Exchange Commission on a quarterly basis.

Results

Global Perspective

- The number of DRs held by institutional investors has increased by 9% (or 1.6 billion) since December 2008 totaling 19.4 billion shares as of December 2010 – indicating increasing demand by this particular DR investor segment.
- The market value of DRs held by institutional investors has increased by 69% since December 2008.
- DR market value reached a low of \$302 billion in March 2009, but since has grown to \$524 billion (73% growth). Using the Citi Liquid DR (CLDR) World ex-U.S. as a proxy for the DR price, we find a high correlation between CLDR World ex-U.S. index and value of DRs held by institutional holders. Thus, since institutional investors have increased the number of DRs they hold since December 2008, we can infer that the fluctuations in the market value of their DR position in these sample companies are a result of changes in price of shares due to overall market activity and not institutional investors shedding their DR position.

DR Market Value Held by Institutions



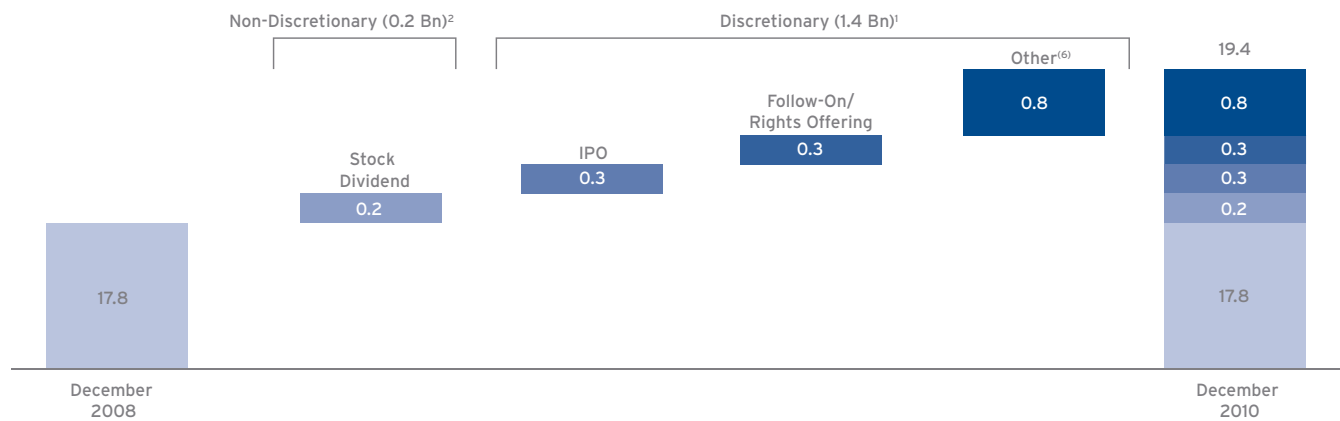
Total DRs Held by Institutions (amount in billions)



Growth Drivers

- The overwhelming majority of the 1.6 billion growth in DR positions was driven by discretionary¹ investment decisions (1.4 billion DRs) on part of institutional investors such as subscription to Initial Public Offerings (IPOs), Follow-On (FO) Offerings, Rights Offerings of DRs and secondary market purchases, indicating strong demand from institutional investors.
- Only 13% (0.2 billion DRs) of the growth was driven by non-discretionary² corporate actions such as stock dividends, stock splits and ratio changes involving DRs, which are executed without the discretion of the investor.

Billions of DRS Held^{3,4,5}

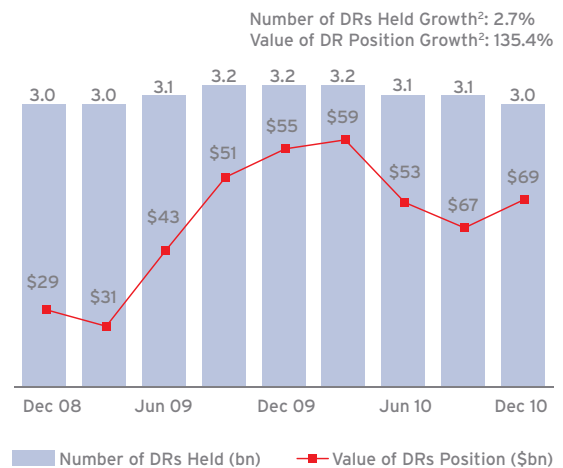


- (1) Discretionary corporate actions present a choice for active participation or subscription from shareholders (e.g., IPOs, FOs, Rights, Other), where a net increase in their position is due to shareholder action.
- (2) Non-discretionary corporate actions include those that do not involve a choice or require active participation from shareholders (e.g., stock dividend, stock split, etc.); where a net increase in their position is due to a company action.
- (3) 30 companies account for the majority of the increase in DRs held by institutional investors, therefore the analysis of growth is based on corporate actions from these 30 sample companies.
- (4) Base DR share details stock split adjusted.
- (5) Institutional participation levels in IPOs, follow-on offerings and rights offerings were based off of a weighted percent of DRs held by institutions in the company as of December 2010. DR's outstanding data was not available for LSE companies, and participation adjustments were not calculated.
- (6) Other: This category reflects the net increase in DRs held by institutional investors once both discretionary and non-discretionary corporate actions are taken into account for the 30 sampled companies; this should be the net purchase/selloff of DRs by institutional investors.

Regional Perspective

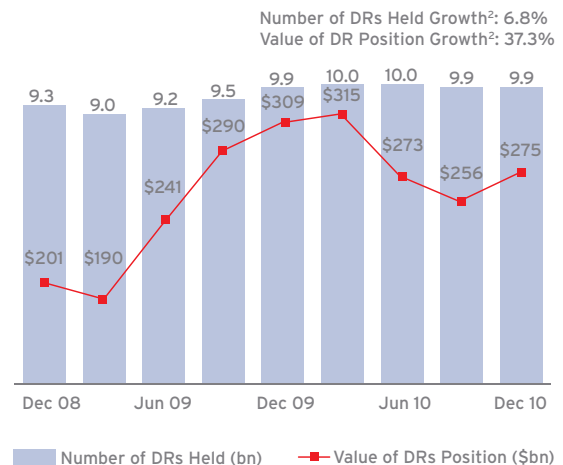
Asia

- Since December 2008, both the number of DRs held by institutional investors and the market value of these positions increased by 3% (or 80 million DRs) and 135% (or \$40 billion), respectively.
- The change was driven by an increase in investor positions in Chinese⁽¹⁾ (115 million DRs) and Indian (61 million DRs) companies, which experienced an increase of \$22 billion and \$7 billion, respectively, in the market value of these DR positions since December 2008.
- In the second quarter of 2010, the number of DRs held in Asian companies was reduced by 5% (or 155 million DRs) despite an increase in market prices; this decrease in DR position was driven mainly by a drop of 149 million DRs held in Taiwanese companies.



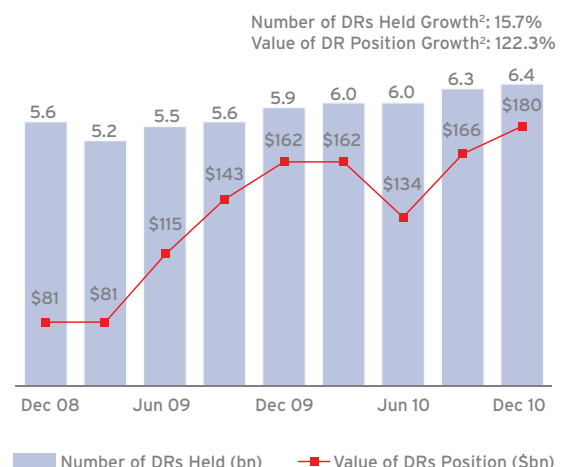
EMEA

- Since December 2008, both the number of DRs held by institutional investors and the market value of these positions increased by 7% (or 626 million DRs) and 37% (or \$74 billion), respectively.
- Growth in the number of DRs held was driven by an increase in investor positions in British (381 million DRs) and Russian (980 million DRs) companies, but slightly offset by decreases in positions from companies in Finland (368 million DRs) and France (126 million DRs).



LatAm

- Since December 2008, both the number of DRs held by institutional investors and the market value of these positions increased by 16% (or 873 million DRs) and 122% (or \$99 billion), respectively. The market value increase was in line with regional price index increase since December 2008.
- The growth in the number of DRs held in LatAm companies was driven mostly by an increase in investor DR positions in Brazilian companies: an increase of about 879 million DRs (or 20%) since December 2008.



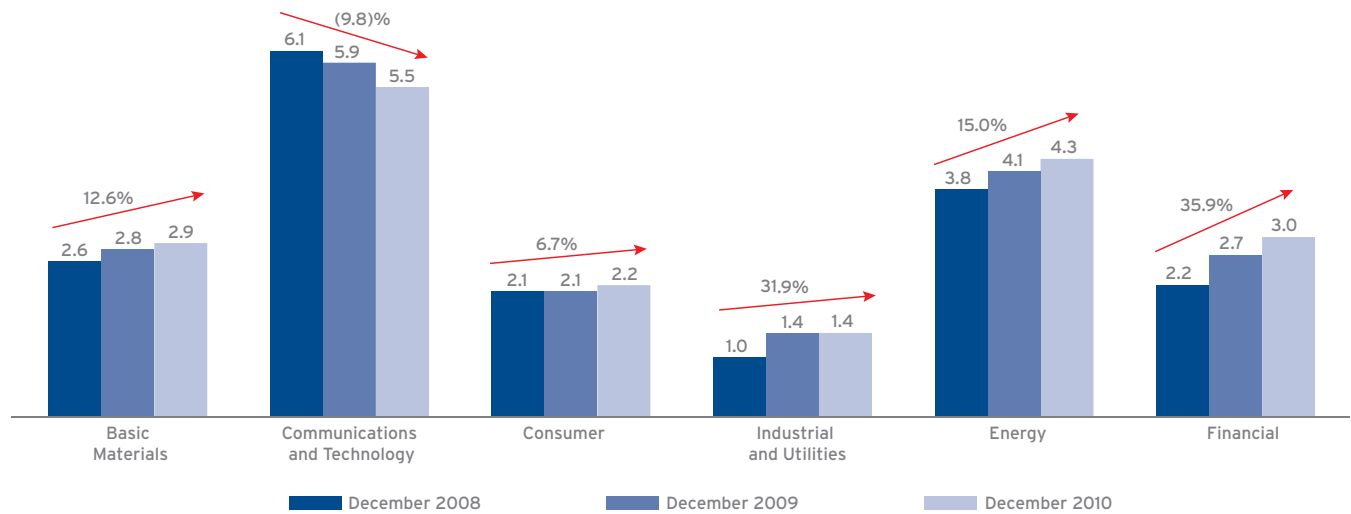
(1) Also includes DR programs for companies from mainland China whose underlying H-shares are listed and traded on the Hong Kong Stock Exchange.

(2) Growth rates are 2-year simple growth rates from December 2008 to December 2010.

Industry Perspective

- All industry sectors except Communications and Technology saw growth in the number of DRs held.
- The drop in institutional investors' DR positions in Communications and Technology companies was driven by a net selloff of shares that can be attributed predominantly to a decrease in the market price of telecommunication companies.

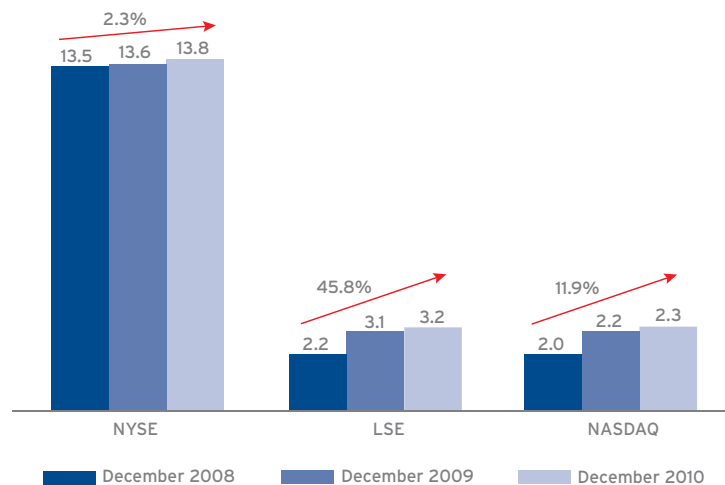
Billions of DRs Held¹



Listing Venue

- Growth in the number of DRs held by institutional investors was consistent across all listing venues; LSE-listed DR programs accounted for 65% (or 1.0 billion DRs) of the growth.
- 70% of the companies included in the sample are DR programs listed on the NYSE; since December 2008, these NYSE-listed companies have seen an increase of 309 million DRs held by institutional investors.
- Since December 2008, institutional investors have increased their position in DR programs listed on the LSE by 46%; a majority of the increase came from interest in DR programs of Russian companies (or 979 million DRs).
- Since December 2008, institutional investors have increased their position in DR programs listed on NASDAQ by 12% (or 243 million DRs).

Billions of DRs Held¹

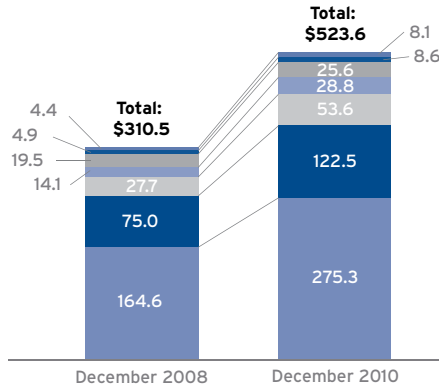


(1) Growth rates are 2-year simple growth rates from December 2008 to December 2010.

Investor Type

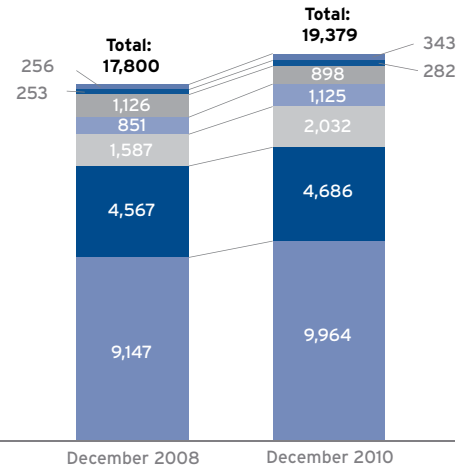
- Investment Advisors and Mutual Funds hold approximately 75% of the market value of the DR positions analyzed in the study and experienced high single-digit percentage growth in the number of DRs held.
- Over the last two years, Pension Funds and Foundations have increased their positions in DR programs by 34%, followed by Hedge Fund/Arbitrators which grew their DR positions by 32%.

Market Value of DRs^{1,2,3} (US\$ Billions)



2 Year Growth		
83%	Pension Fund/Foundation	34%
75%	Insurance Company	12%
31%	Broker/Inv. Bank Asset Mgmt	-20%
105%	Hedge Fund/Arbitrage	32%
94%	Bank Management Division	28%
63%	Mutual Fund Manager	3%
67%	Investment Advisor	9%

DRs Held^{1,2,3} (Millions of DRs)



(1) Certain institution types were consolidated due to their similar classifications to other institutional categories or because of their smaller market share.

(2) Examples of the institutions included in the study and the combinations that took place include:

- Insurance Company & Insurance Mgt. Division ex: (Berkshire Hathaway, State Farm, Prudential Asset Mgt.)
- Pension Fund & Foundations (State Teacher's Retirement, MIT Investment Mgt., Gates Family Foundation)
- Bank Management Division & Private Banking Portfolio (JP Morgan Asset Mgt., HSBC Global Asset Mgt., Deutsche Bank Investment Mgt.)
- Hedge Fund & Arbitrage (Greenlight Capital, Gabelli Securities, Paulson & Co.)
- Broker & Broker/Inv. Bank Asset Management (Credit Suisse Asset Mgt., Charles Schwab Investment Mgt., Jefferies & Co.)

(3) Sovereign Wealth Funds were not included in this particular analysis due to small representation in the base data; as of December 2010, Sovereign Wealth Funds in the sample held 47.7 million DRs with a market value of \$1.1 billion.

Conclusions

Results of our study clearly demonstrate that institutional investors have continued to increase their positions in DR programs showing strong interest in international equities. Even through the period of one of the biggest financial crises, the number of DRs outstanding held by institutional investors increased by 9% (or 1.6 billion DRs) over the two-year period covered in the study.

Although the market value of these DR positions fluctuated with market activity, institutional investors increased their DR positions across all regions, exchanges and almost all industry sectors in varied proportions. In terms of regions, DR programs out of LatAm saw the largest increase (873 million DRs), followed closely by EMEA (627 million DRs) and then Asia (80 million DRs). In terms of the exchanges, institutional investors increased their position largely in DR programs listed on the LSE by 1.0 billion DRs. Finally, institutional investors increased their DR positions in companies across all industries, except for Communications and Technology, where there was a net selloff of DRs due to a decrease of the price of shares of telecommunication companies. The trends observed above show that institutional investors have maintained a strong interest in diversifying their portfolio in international equities through a DR instrument even during a tumultuous market.

Moreover, the majority of the 1.6 billion DRs increase in institutional investor positions originated from discretionary actions (1.4 billion DRs), meaning that shareholders chose to actively participate or subscribe to a DR program's IPO, FO or rights offering(s) or through an overall net increase in their existing DR position in companies in their portfolio. Only 0.2 billion DRs of the 1.6 billion DRs increase came from non-discretionary actions taken by the DR issuers, such as a stock split or stock dividend, which led to an involuntary increase in the DR positions of investors. This, when put into context of increased trading volumes (CAGR of 19% since 2006) and the increasing number of issuers (3,000+) accessing capital markets through the DR equity instrument, confirms the increasing popularity of DRs as vehicles of convenience for cross-border listings and the strong role institutional investors play in making it a popular investment choice.

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